



Information

Canada's Financial Services Sector

March 2003

Canada's Credit Unions and Caisses Populaires

Overview

- Canada has a strong co-operative financial services sector, which consists of both credit unions and caisses populaires, the latter located predominantly in Quebec.
- At the end of 2001 Canada's credit union sector consisted of 681 credit unions and 914 caisses populaires, with more than 3,600 locations and 4,100 automated teller machines.
- As in other financial services sectors, there is a trend to consolidation, with the total number of credit unions and caisses populaires declining from about 2,700 in 1990 to 1,595 by the end of 2001. This has led to an increase in the average asset size of individual credit unions and caisses populaires.
- Canada has the world's highest per capita membership in the credit union movement, with over 10 million members, or about one-third of the Canadian population.
- While the sector is active in all parts of the country, it is strongest in the western provinces and in Quebec. In Quebec 70 per cent of the population belongs to a caisse populaire, while in Saskatchewan close to 60 per cent belongs to a credit union.
- In 2001 the sector accounted for 10 per cent of the domestic assets of Canada's deposit-taking financial institutions. Credit unions and caisses populaires have traditionally focused their efforts on such key service areas as residential mortgage financing, consumer credit and deposit services.
- Net interest income continues to be the major source of revenue, accounting for 78 per cent of total revenue. However, the share of revenue from other sources is increasing, as credit unions and caisses populaires become more active in other financial service areas such as the sale of mutual funds, insurance and wealth management.
- The return on equity for the sector averaged 8.2 per cent over the 1993-2000 period but in 2001 dropped to 7.5 per cent. This decrease, which was in line with results observed in other sectors of the financial services industry, was due in part to the global economic slowdown during that year.
- This sector is almost exclusively regulated at the provincial level in Canada. However, the national central, Credit Union Central of Canada, is chartered and regulated by the federal government under the Cooperative Credit Associations Act. In addition, six provincial credit union centrals have chosen to register under federal legislation, in addition to being regulated provincially.



Introduction

Canada's credit union movement occupies a unique economic and social niche in the country's financial services sector. The first *caisse populaire* in North America was created in Lévis, Quebec, in December 1900 by Alphonse Desjardins. Outside Quebec Ottawa's Civil Service Savings and Loan Society was established in 1908 for public service employees. In the Atlantic provinces credit unions sprang up in the 1930s and 1940s in response to the needs of fishers, farmers and miners. Credit unions subsequently spread to the Prairie provinces, where they developed largely in response to difficulties faced by farmers in obtaining financing during the Great Depression. Hundreds of credit unions also sprang up across Ontario during the 1940s, 1950s and 1960s, where they found their niche primarily in parishes, employee groups, trade and professional associations and, to some extent, ethnic and geographic communities. Today *caisses populaires* and credit unions have grown into a co-operative movement that is one of the most active in the world and has the world's highest per capita membership. There are currently close to 1,600 individual credit unions and *caisses populaires* in Canada with over 10 million members.

Organizational Structure

Credit unions and *caisses populaires* are co-operative financial institutions owned and controlled by their members. Their ownership and corporate governance are based on co-operative principles, and their primary commitment is to serve their members' financial needs. In most provinces each customer is required to become a member of the credit union or

caisse populaire. Each member becomes a shareholder and has one vote, regardless of the size of deposit or share capital held. Members can vote for the board of directors, run for election, attend the annual meeting and vote on motions. As shareholders, members are also entitled to yearly dividends and profit sharing.

The minimum share capital contribution from each member joining a credit union or *caisse populaire* generally ranges from \$5 to \$150 (a one-time investment). Eligibility for membership may include being part of a "common bond of association," such as an industry, trade union, club or community, religious or ethnic background, or being a resident of a defined geographic area. One of the most important aspects of the co-operative structure of credit unions and *caisses populaires* is the general requirement to concentrate on the provision of services to members, which results in the "recycling" of membership funds. In this way, credit unions and *caisses populaires* play an integral role in local development by reinvesting their deposits and profits in the community through personal and business loans, mortgages and dividends paid on members' shares.

The Mouvement des *caisses Desjardins* consists of a network of *caisses populaires* in Quebec, Manitoba, New Brunswick and Ontario, as well as a network of subsidiaries held under the Desjardins-Laurentian Financial Corporation, Société immobilière Place Desjardins and Investissement Desjardins. The subsidiary corporations are active through the *caisses* network in various sectors such as life and health insurance, property and casualty insurance, securities brokerage, trust

services, investments and venture capital. Each *caisse populaire* is a member of the Fédération des caisses Desjardins du Québec, a support organization responsible for the general orientation, planning, co-ordination and supervision of all activities of the Mouvement des caisses Desjardins. The structure of the *caisses populaires* is somewhat more centralized than that of credit unions and they operate under a single brand name.

Outside Quebec the vast majority of credit unions are shareholders in one of the nine provincial centrals, which are responsible for ensuring liquidity at the provincial level and providing services as a trade association. Provincial centrals also provide wholesale lending and facilitate settlement of cheques and electronic payments for local credit unions. In turn, all nine provincial centrals are the primary shareholders of Credit Union Central of Canada (CUCC), which is responsible for establishing liquidity policy and overseeing liquidity maintenance at the national level. The CUCC also works in partnership with the national credit union system to stimulate growth, improve cost-competitiveness and enhance the effectiveness of the democratic process. In addition, it gives the credit unions a national voice on financial service issues. However, each individual credit union maintains a separate identity and may compete for eligible members with other credit unions.

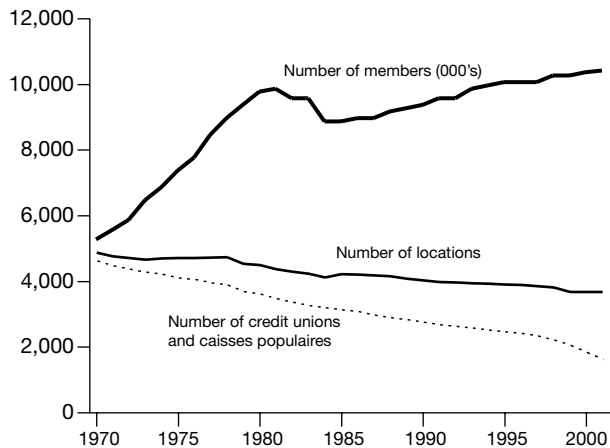
Primarily because of their autonomous local structure, Canada's credit unions and *caisses populaires* do not generally have subsidiaries or branches in foreign countries, except for the Mouvement des caisses Desjardins, which since 1992 has

had a subsidiary in Florida, the Desjardins Federal Savings Bank. However, the sector has made important contributions to the international credit union movement. The Mouvement Desjardins has been particularly active in developing the credit union sector internationally through Développement international Desjardins, which provides assistance to organizations in approximately 30 different countries in Africa, Latin America, the West Indies, Central and Eastern Europe and Asia. Canada's credit unions also make significant financial and in-kind contributions to the Canadian Co-operative Association (CCA), a national umbrella organization representing the co-operative sector and promoting its growth and development in Canada and abroad. For example, over the past 10 years the CCA has partnered with the Canadian International Development Agency and worked on credit union development in both Ghana and the Ukraine, as well as on a microfinance project in China.

Structure of the Sector

As with other financial services sectors, there is a trend to consolidation in the credit union movement (see Chart 1). At the end of 2001 Canada's credit union sector consisted of 681 credit unions and 914 *caisses populaires*. Their combined total of 1,595 is a significant decline from approximately 2,700 credit unions and *caisses populaires* in 1990. However, the total number of "points of service" has been maintained or has even increased in many communities: at year-end 2001 there were more than 3,600 locations and 4,100 automated teller machines (ATMs). At the same time, employment in the

Chart 1
**Consolidation trends, credit unions
 and caisses populaires**

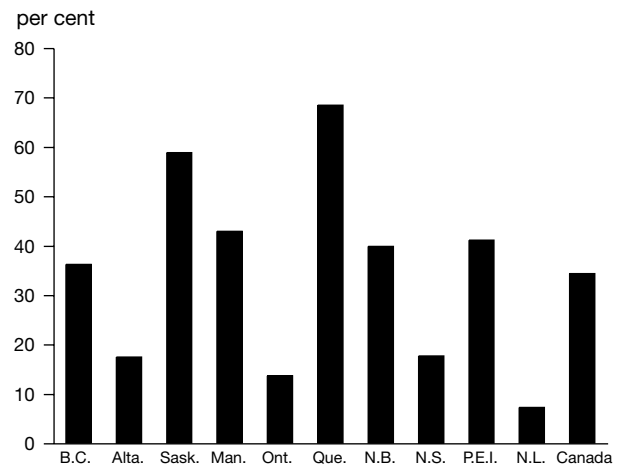


sector has increased from almost 41,000 employees in 1991 to close to 61,000 by the end of 2001.

This amalgamation of credit unions has led to an increase in their average size, particularly in Ontario, British Columbia and the Prairie provinces. For example, in Ontario the number of credit unions has declined by almost 50 per cent in the last 10 years while average assets held by credit unions have more than doubled. By year-end 2001 the average assets held by Ontario's 257 credit unions were approximately \$55 million and their total assets exceeded \$14 billion.

Credit unions and caisses populaires have also been active in purchasing bank branches, particularly in more isolated areas, helping to ensure that all Canadians have access to financial services. For example, in 2000 and 2001 credit unions in British Columbia, Manitoba, Saskatchewan, Alberta, New Brunswick and Nova Scotia purchased 72 bank

Chart 2
**Percentage of population with membership
 in a credit union/caisse populaire, 2001**

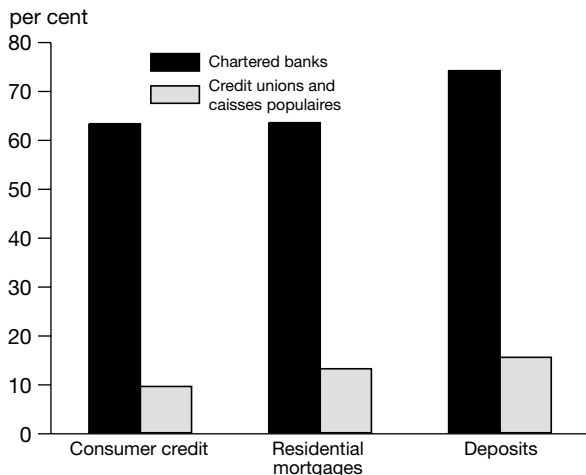


branches in communities where some of the six largest banks had discontinued their operations.

Credit union and caisse populaire membership has grown steadily over the last half century, from 1 million members in 1950 to approximately 10.4 million by the end of 2001, or one-third of Canada's population. As shown in Chart 2, membership is highest in Quebec, where 70 per cent of the population belongs to a caisse populaire, followed by Saskatchewan, where 59 per cent of the population is a member of a credit union.

Credit unions and caisses populaires have maintained strong market shares in such key service areas as residential mortgage financing (13 per cent), consumer credit (10 per cent) and deposit services (15 per cent) (see Chart 3). The market share of the credit union sector varies considerably by region. It is highest in Quebec and Saskatchewan, at roughly 40 per cent of the assets of deposit-taking

Chart 3
Market share, credit unions/caisses populaires and chartered banks, 2001



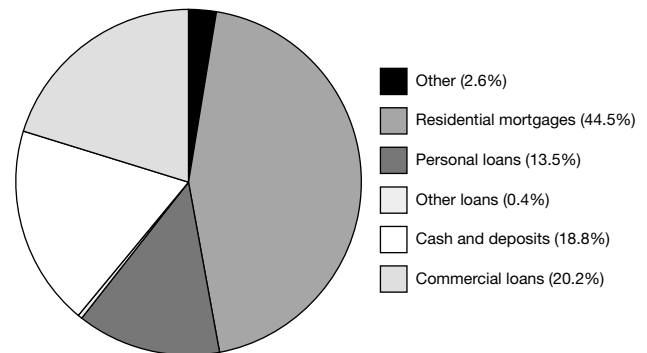
institutions. Credit unions are also strong in British Columbia, where market share is 20 per cent of the assets of deposit-taking institutions.

Assets and Revenue

At the end of 2001 credit unions and caisses populaires reported combined assets of \$131 billion, or 10 per cent of the total domestic assets of Canada's deposit-taking financial institutions. Based on asset size, the largest participants in the Canadian credit union movement rank among the largest financial institutions in Canada.

For example, caisses populaires affiliated with the Mouvement des caisses Desjardins reported assets of \$66 billion at the end of 2001. However, on a consolidated basis including all member caisses populaires and all subsidiaries, the Mouvement Desjardins is the sixth largest Canadian deposit-taking institution with over \$80 billion in assets. British Columbia's credit unions hold over

Chart 4
Asset breakdown, credit unions and caisses populaires, 2001

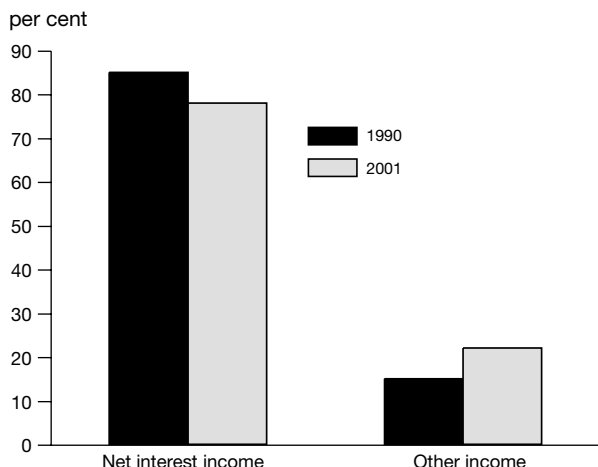


40 per cent of the assets of the co-operative sector outside of Quebec, with 4 credit unions having assets of between \$1.7 billion and \$6.4 billion (a list of the 10 largest credit unions in Canada appears in the Annex). Vancouver City Savings Credit Union is British Columbia's largest credit union, with approximately \$6.4 billion in assets and 41 branches (at year-end 2001).

Reflecting their mandate, Canadian credit unions and caisses populaires have traditionally concentrated on providing mortgage and consumer financing to their members, with the vast majority of loans being under \$1 million. As shown in Chart 4, residential mortgages accounted for approximately 45 per cent of all assets in 2001, while personal loans accounted for close to 14 per cent of assets.

Unlike the Canadian banks, which have seen strong growth in revenue from non-interest sources of income, net interest income continues to be the major source

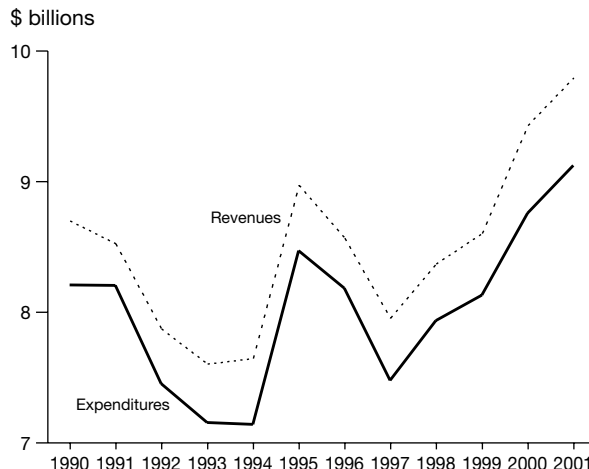
Chart 5
Revenue by source, credit unions
and caisses populaires



of revenue for credit unions and caisses populaires (see Chart 5). In 2001, 78 per cent of revenue came from net interest income. However, other sources of income are gaining in importance. For example, credit unions and caisses populaires are becoming more active in the sale and distribution of mutual funds, and in some provinces such as British Columbia and Quebec, they are directly involved in the sale of insurance. In addition, they are developing new products and services, including expanded wealth management services and new methods of delivery to better serve their members.

Profits in this sector are sensitive to economic growth and capital markets. As shown in Chart 6, the sector was adversely affected during the economic downturn in the early 1990s, as well as in 1997, when capital markets weakened. However, despite the economic slowdown observed in 2001, the Mouvement des caisses Desjardins posted a 12-per-cent return

Chart 6
Revenues and expenditures, credit unions
and caisses populaires



on equity (ROE) that year, up from 11.4 per cent in 2000. At the same time, Desjardins declared record combined surplus earnings of \$601 million in 2001 (after taxes and before dividends), a 14.3-per-cent increase over the previous year. It is also expected that profits will reach a record high of \$750 million in 2002. The credit union system, which continued to show steady growth in 2001, posted net earnings of \$293 million (after taxes and dividends), a 5.3-per-cent increase over the previous year.

The ROE for the co-operative sector tends to be lower than in the banking sector. While the ROE for credit unions and caisses populaires averaged 8.2 per cent over the 1993-2000 period, it stood at 7.5 per cent in 2001 (see Chart 7). This decrease was in line with results observed in other sectors of the financial services industry and was due to the general slowdown of the global economy.

Chart 7
Return on equity, credit unions
and caisses populaires

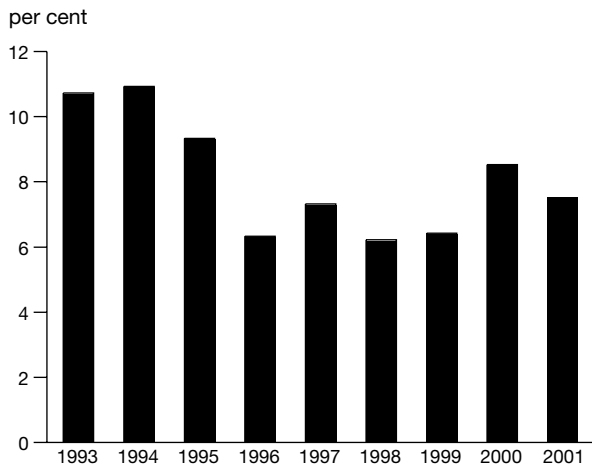
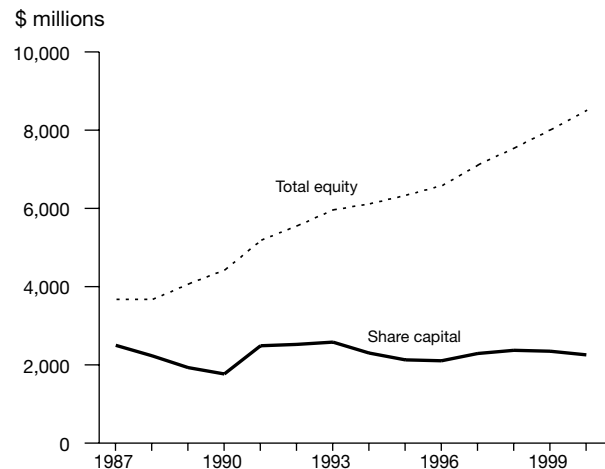


Chart 8
Total equity and share capital, credit unions
and caisses populaires



Capitalization

Because the sector is made up of so many institutions, there are considerable differences in capitalization among them. Credit unions and caisses populaires have increasingly financed their growth out of retained earnings rather than from share capital (see Chart 8). In some cases this has led to imbalances within the credit union movement. While some institutions find it difficult to finance their rapid growth out of retained earnings, others find themselves with a surplus of capital. In some provinces credit unions and caisses populaires can raise capital by issuing preferred shares and non-voting shares.

Each credit union is required by provincial regulations to maintain liquidity ranging from 8 to 10 per cent of total assets, most of which is maintained in a liquidity pool at the provincial central. To make excess liquidity available to other provincial credit union systems, each provincial central places 2 per cent of provincial system assets in a segregated fund under the control of

a custodian. The custodian has access to the funds for national purposes on terms set by the CUCC.

Financial Service Innovation

Historically, Canada's credit unions and caisses populaires have been an important source of innovation and product development. For example, they were the first in the financial services sector to offer consumer loans. The credit union movement in Saskatchewan introduced the first ATMs in Canada in 1976 and was the first in Canada to pilot the in-store direct debit system. The sector has also been a leader in the provision of direct payroll deposit services in Ontario, telephone banking in British Columbia and on-line banking in Quebec. The credit union movement in British Columbia was also the first to introduce an entirely virtual bank, the Citizens Bank of Canada, where any banking transaction can be done day or night through a 24-hour telephone service centre, ATMs or the Internet.

Regulation

All credit unions and caisses populaires are provincially incorporated as their activities do not extend beyond their respective provincial borders. Consequently, the sector is almost exclusively regulated at the provincial level for prudential soundness and market conduct. However, the legislative and regulatory framework for credit unions and caisses populaires generally parallels that of federal deposit-taking institutions such as banks.

While the sector is primarily regulated at the provincial level, the federal government does play a regulatory role in the credit union movement outside of Quebec through the national and provincial centrals. The national central, Credit Union Central of Canada, is chartered and regulated by the federal government under the Cooperative Credit Associations Act. The federal government can provide the CUCC with liquidity support through the Bank of Canada or the Canada Deposit Insurance Corporation. In addition, all provincial centrals (except for those in New Brunswick, Prince Edward Island and Newfoundland and Labrador) have elected to be regulated at the federal level as well as at the provincial level. Both the national and provincial centrals are inspected for prudential purposes by the federal Office of the Superintendent of Financial Institutions.

Deposit Insurance

Deposits of credit union members are protected by provincial stabilization funds and/or deposit insurance and guarantee corporations, with the amount of coverage varying by province. Deposits are fully

guaranteed, with no limits on the amount of coverage provided, in Saskatchewan, Manitoba and Alberta. Deposits in Nova Scotia and Newfoundland and Labrador are insured to a maximum of \$250,000, while Ontario and British Columbia guarantee deposits to a maximum of \$100,000 per account. Quebec, New Brunswick and Prince Edward Island guarantee deposits to the same level as bank deposits—\$60,000. In addition, Ontario, Newfoundland and Labrador, Nova Scotia and Prince Edward Island offer protection for registered retirement savings plans and registered retirement income funds sold by credit unions.

New Federal Financial Services Legislation

Bill C-8, An Act to establish the Financial Consumer Agency of Canada and to amend certain Acts in relation to financial institutions, came into effect on October 24, 2001. The legislation, which amends the Cooperative Credit Associations Act, provides the credit union system with new opportunities and business powers. Under the new legislation a federal association, 2 or more provincial centrals, or 10 or more credit unions from more than one province can incorporate a federal association, with enhanced business powers including the potential to offer retail services through a “retail association.” The key objective of these new measures is to help strengthen the credit union sector and foster greater domestic competition in the financial services industry.

Recent Developments

The sector continues to consolidate through mergers between credit unions, and to maximize member opportunities through the purchase of bank branches in communities where banks withdraw from the market. Credit unions and caisses populaires have also stepped up their services in non-traditional areas including full-service brokerage functions, mutual funds, commercial lending and wealth management.

A number of proposals within the credit union movement are aimed at merging backroom operations to improve cost-efficiency and at reducing the level of structural fragmentation. For example, the Ontario and B.C. centrals are working on plans to merge their respective treasury and financial operations and to provide a broad range of financial services to local credit unions including liquidity management, wholesale lending, and settlement of cheques and electronic payments. In addition, the centrals in Manitoba, Saskatchewan and Alberta are exploring the possibility of merging their respective payment processing and information technology operations.

In 2001 the Mouvement des caisses Desjardins completed the consolidation of the 12 regional caisses support organizations in Quebec into a single entity, the Fédération des caisses Desjardins du Québec. In addition, the Mouvement Desjardins announced the merger of Desjardins-Laurentian Life Assurance Company and Imperial Life Assurance Company of Canada. The new entity, called Desjardins Financial Security Life Assurance Company, now ranks seventh

among Canada's life and health insurance companies in terms of premium income. That same year the Mouvement Desjardins also entered into strategic partnerships for the management of its telecommunication and information technology operations in order to reduce costs and concentrate on its core competencies. On the international side Développement international Desjardins, a subsidiary of the Mouvement Desjardins, worked in partnership with the Mexican government to conduct a comprehensive reform of the co-operative savings and credit sector in that country.

Looking Ahead

The co-operative sector, like the rest of Canada's financial services industry, is facing the challenges of increasing competitive pressures, continued advances in technology and a general slowdown of the global economy. Nevertheless, expansion of the sector is expected to continue in both scale and scope. Credit unions across the country are continuing to work in partnership with their provincial centrals and Credit Union Central of Canada to stimulate further growth and improve their competitiveness. They are developing new products and delivery channels, as well as pursuing strategic partnerships that allow them to share their extensive investments in technology and increase their efficiency through economies of scale. As for the Mouvement Desjardins, it is focusing its efforts on promoting its growth in target markets and improving its penetration in certain commercial markets through further expansion of its integrated offering of services to both individuals and businesses.

Annex

Ten largest credit unions in Canada by assets, December 2001

Name	Province	Total assets (\$ millions)
Vancouver City Savings Credit Union	British Columbia	\$6,368
Coast Capital Savings	British Columbia	\$3,359
Surrey Metro Savings	British Columbia	\$2,697
Envision Financial	British Columbia	\$1,675
Capital City Savings and Credit Union Limited	Alberta	\$1,450
Community Credit Union	Alberta	\$1,266
Niagara Credit Union Limited	Ontario	\$1,235
Civil Service Co-operative Credit Society Limited	Ontario	\$1,109
Steinbach Credit Union	Manitoba	\$1,060
HEPCOE Credit Union Limited	Ontario	\$1,057

Note: This table does not include the caisses populaires that are part of the Mouvement des caisses Desjardins. On a consolidated basis, the Mouvement des caisses Desjardins is the sixth largest Canadian deposit-taking institution with over \$80 billion in assets (at December 31, 2001).

Source: CUCC.

Further information on legislation to reform the financial services sector can be obtained from the Department of Finance at www.fin.gc.ca. Additional information on the credit union sector is available from Credit Union Central of Canada at www.cucentral.ca and from the Mouvement des caisses Desjardins at www.desjardins.com.

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